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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 003622

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TAGS: ENRG ETRD JO
SUBJECT: JORDAN'S ENERGY MINISTER DISCUSSES PIPELINE ISSUES

REF: CAIRO 5992

Classified By: Ambassador Edward W. Gnehm, Reasons 1.5 (b,d)

SUMMARY

¶1. (u) Jordanian Energy Minister Mohammed Bataineh briefed DCM and econoff on recent developments on the Egypt-Jordan gas pipeline and the Iraq-Zarqa oil pipeline. The projects could save Jordan a combined $50 million per year on their current energy bill. Meanwhile, Jordan is moving closer to privatizing the power generation and distribution sectors, with the expectation of privatization revenues by June of
¶2003. End summary.

EGYPT GAS PIPELINE MOVING FORWARD

¶2. (c) In a June 24 meeting, Jordanian Energy Minister Mohammed Bataineh downplayed an announcement that a joint-venture company had been formed by Syrian, Lebanese, Jordanian and Egyptian interests to develop the Al Arish gas pipeline (reftel). According to Bataineh, the JV is a Syrian government-backed scheme to try to secure soft loans from regional development funds like the Kuwaiti fund to support the project. The JV concept, Bataineh said, has never been popular with the GOJ or with Egypt, both of whom prefer to develop their sections of the line through private sector means (in Jordan, through a BOOT tender). As the arrangement now stands, Egypt and Jordan will go ahead with their original plans to develop their sections independently, with each of the four JV partner countries having the option to participate in development of the line from the Jordan/Syria border northward through the JV. Bataineh said development of the Arish-Aqaba segment is proceeding apace, and predicted gas would be flowing in Aqaba by April 2003.

¶3. (u) Bataineh expressed relief that this issue had been settled, since progress on the pipeline deal is a necessary precondition for Belgian energy giant Tractebel to move forward with its own plans to build an independent power production (IPP) facility north of Amman. Bataineh noted that the pipeline would probably save Jordan at least $30 million per year at the outset as the Aqaba power station switched from fuel oil (1.5 million tons/year) to gas turbines. It would also reduce Jordan's energy dependence on Iraq by reducing its oil imports.

¶4. (c) Bataineh noted with some humor that there are still a number of questions about the future of the pipeline from the Syrian border northward. First, there is still disagreement about whether the line will go through Lebanon to ports in northern Syria, or straight through Syria with a spur to Lebanon. In addition, it is unclear how much gas will be available north of the border. There is still some debate whether to use a 30-inch or 36-inch diameter pipe to convey the gas, with the group leaning toward the 30-inch pipe. Such a pipe, Bataineh said, has a capacity of around 7 bcm/year. Jordan's consumption will be 2.5-3.0 bcm, and Lebanon's about the same. This would leave about 1 bcm for delivery to Syria or other customers. Cyprus has already voiced interest in receiving the gas, with a current need of 1 bcm/year and 3-4 bmc/year by 2006. Bataineh said Syria had assured Cyprus it would have excess gas to export, but said he has seen no evidence of such Syrian reserves.

ZARQA PIPELINE STALLED

¶5. (c) Bataineh confirmed that a closing date for bids on the proposed crude pipeline to Zarqa has been postponed at the request of bidders, who are seeking more time to study the technical merits of the project. He said financing is a major issue, as commercial lenders for many bidders have serious questions about political risk for the project. Bataineh clarified that the project has no/no Iraqi component. Instead, the plan is to build an initial pumping station on the Jordanian side of the border, with oil crossing the border by truck from Iraq and off-loading at the pumping station. From there, a pipeline will convey crude to the Zarqa refinery. Bataineh said the current transportation system costs around $50 million per year, versus a 5-6 year

buyback period on a BOOT project of $150 million, for a cost savings of $20 million per year over that period. In addition to this project, Bataineh said the Zarqa refinery's Board of Directors is discussing refinery upgrades that could cost as much as $900 million.

ELECTRICITY PRIVATIZATIONS - IN THE PIPELINE

¶6. (u) Bataineh said the GOJ is eager to move forward with long-planned privatizations of the kingdom's electricity generation and distribution facilities. Further progress must wait, he said, for changes to the current electricity law that are currently before the cabinet. Bataineh expressed confidence that the changes will be approved soon. Once the legal framework is in place, RFP's will be issued and bidders confirmed. Bataineh guessed that privatization revenues from the sector would begin entering government coffers by June 2003, helping to finance year two of the GOJ's Program for Social and Economic Transformation (PSET).

COMMENT

¶7. (c) Jordan's commitment to diversifying its energy sources and to rationalizing the power sector remains strong, driven in large part by a desire to reduce its dependency on Iraq as an energy source. Tractebel's unwillingness to move forward on its IPP until the gas pipeline issue was sorted out gives a strong indication that the new plant will likely be gas-fired. This, coupled with the switch to gas in Aqaba and privatization of power generation, would virtually free Jordan's electricity supply from dependence on Iraqi oil. Nevertheless, even with these welcome changes, Jordan will remain reliant on Iraq for its other oil needs (crude and refined products like kerosene and gasoline) - a $300 million-plus Iraqi energy subsidy.
Gnehm